

Audit



Report

OFFICE OF THE INSPECTOR GENERAL

INTO-PLANE REFUELING

Report Number 93-029

December 9, 1992

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The following acronyms are used in this report.

DLA.....Defense Logistics Agency
DFSC.....Defense Fuel Supply Center
MIPR.....Military Interdepartmental Purchase Request



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202

December 9, 1992

MEMORANDUM FOR ASSISTANT SECRETARY OF THE AIR FORCE
(FINANCIAL MANAGEMENT AND COMPTROLLER)

SUBJECT: Report on the Audit of Into-Plane Refueling
(Report No. 93-029)

We are providing this final report for your information and use. The report addresses the nonuse of existing into-plane fuel contracts at commercial airports. Comments on a draft of this report were considered in preparing the final report.

DoD Directive 7650.3 requires that all audit recommendations be resolved promptly. Therefore, we request that you provide final comments on the unresolved issues as discussed on pages 8 and 9 within 60 days of the date of this report.

As required by DoD Directive 7650.3, the comments must indicate concurrence or nonconcurrence in each recommendation addressed to you. If you concur, describe the corrective actions taken or planned, the completion dates for actions already taken, and estimated dates for completion of planned actions.

If you nonconcur with the estimated monetary benefits or any part thereof, you must state the amount you nonconcur with and the basis for your nonconcurrence. Recommendations and potential monetary benefits are subject to resolution in accordance with DoD Directive 7650.3 in the event of nonconcurrence or failure to comment. We also ask that your comments indicate concurrence or nonconcurrence with the internal control weaknesses highlighted in Part I.

The courtesies extended to the audit staff are appreciated. If you have any questions on this audit, please contact Mr. John S. Gebka at (703) 692-3303 (DSN 222-3303) or Mr. Billy T. Johnson at (703) 692-3318 (DSN 222-3318). The planned distribution of this report is listed in Appendix G.

A handwritten signature in cursive script, reading "E. Jones", is positioned above the typed name of the Deputy Assistant Inspector General.

Edward R. Jones
Deputy Assistant Inspector General
for Auditing

Enclosure

cc:
Secretary of the Army
Secretary of the Navy
Secretary of the Air Force

Office of the Inspector General, DoD

REPORT NO. 93-029
(Project No. 1LC-0030)

December 9, 1992

INTO-PLANE REFUELING

EXECUTIVE SUMMARY

Introduction. Into-plane contracts are awarded by the Defense Fuel Supply Center (DFSC), a field level activity of the Defense Logistics Agency. Into-plane contracts allow DoD aircraft that land at commercial airports to obtain quality fuel from suppliers at lower prices than regular retail prices. Noninto-plane fuel is any category of fuel purchased by pilots at commercial airports from noncontract sources. During FY 1990, DFSC paid contractors \$127.9 million for fuel purchased under 370 into-plane contracts. In addition, DoD Components purchased \$83.6 million of higher priced noninto-plane fuel, of which \$14 million was purchased at commercial airports where into-plane contracts were established.

Objectives. The objectives of the audit were to:

- o determine if the Military Departments were collecting and submitting appropriate fuel consumption data to DFSC to support the establishment of into-plane contracts at commercial airports,
- o determine if existing into-plane contracts were being used by DoD pilots when fuel was purchased at commercial airports,
- o determine if DoD aircraft can make greater use of military installations to refuel, rather than using commercial airports,
- o determine if non-DoD agencies that obtain fuel under DoD into-plane contracts should reimburse DoD at the contract cost rather than at the lower stock fund price, and
- o evaluate applicable internal controls.

Audit Results. Fuel requirements were effectively provided to DFSC by the Military Departments to support the establishment of into-plane contracts at commercial airports. Air Force pilots purchased noninto-plane fuel at locations where DFSC had awarded into-plane contracts. As a result, DoD spent about \$4.1 million more than necessary to purchase higher priced noninto-plane fuel at into-plane locations during FY 1990. Army and Navy pilots were appropriately using into-plane contracts. We found limited opportunities for DoD aircraft to refuel at military installations rather than commercial airports. Previously, on

this audit project, we issued Quick-Reaction Report No. 92-026, "Non-DoD Agencies Use of Into-Plane Refueling Contracts at Commercial Airports," dated December 19, 1991. The report showed that DFSC undercharged non-DoD agencies \$4.7 million in FY 1990 for into-plane fuel purchases.

Internal Controls. Controls were not effective to prevent the purchase of higher priced noninto-plane fuel at commercial airports where lower cost into-plane contracts had been established. See Finding for details on this weakness and Part I for details of our review of internal controls.

Potential Benefits of Audit. The Air Force can realize an estimated cost avoidance of \$12.3 million by making greater use of existing contracts at into-plane contract locations during the 6-year Future Years Defense Program (see Appendix E).

Summary of Recommendations. We recommended requiring the Air Force stock fund to charge Air Force activities the full retail price of noninto-plane fuel, monitoring purchases of noninto-plane fuel at contract locations, and requiring that inordinate purchases be reported to the major Air Force command.

Management Comments. The Principal Deputy Assistant Secretary of the Air Force (Financial Management) concurred with Recommendation 1., but disagreed with the significance we placed on the problem and wanted the monetary benefits deleted from the report. The Principal Deputy concurred with Recommendation 2., stating that noninto-plane fuel purchases will be monitored on a limited basis but did not state when monitoring was to start. Part II contains a complete discussion of management's comments, and Part IV contains the complete text of management's comments.

Audit Response. We did not fully agree with the Principal Deputy's response to Recommendation 1. We did reduce potential monetary benefits by excluding fuel that was purchased during Operation Desert Shield. However, we believe that material savings can still be achieved by greater use of into-plane contracts for the remaining fuel purchases. Management comments were considered partially responsive to Recommendation 2. Monitoring noninto-plane fuel purchases at commercial airports will improve controls so that the Air Force can make greater use of into-plane contracts. We request that the Principal Deputy provide the date that monitoring will start on noninto-plane purchases. We request that the Principal Deputy respond to the unresolved issues in this final report by February 10, 1993.

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This report was prepared by the Logistics Support Directorate, Office of the Assistant Inspector General for Auditing, DoD. Copies of the report can be obtained from the Secondary Reports Distribution Unit, Audit Planning and Technical Support Directorate, (703) 614-6303 (DSN 224-6303).

PART I - INTRODUCTION

Background

DoD aircraft normally refuel at military installations. However, mission requirements sometimes make it necessary to refuel aircraft at commercial airports. To ensure that DoD pilots receive quality products at discount prices, the Defense Fuel Supply Center (DFSC), a field level component of the Defense Logistics Agency (DLA), establishes into-plane contracts with fuel suppliers at commercial airports. In addition to DoD, other U.S. Government agencies and selected foreign governments are authorized to use into-plane contracts.

Each Military Department has a fuel management office to coordinate fuel matters related to the into-plane refueling program with DFSC. The Army's fuel office is the General Materiel and Petroleum Activity, New Cumberland, Pennsylvania. The Navy's fuel management office is the Navy Petroleum Office, Cameron Station, Alexandria, Virginia. The Air Force's fuel management office is Detachment 29, Cameron Station, which is a field office of the San Antonio Air Logistics Center, Kelly Air Force Base, Texas.

DFSC attempts to establish an into-plane contract when an authorized user informs DFSC that it has an annual requirement of at least 15,000 gallons of a single grade of fuel product. When into-plane fuel was purchased in FY 1990, DFSC paid the supplier at the established contract rate per gallon and obtained reimbursement from the into-plane user at a standard price established by DFSC, which was usually lower than the contract price. In FY 1990, DFSC had 370 into-plane contracts established at commercial airports worldwide (280 domestic and 90 overseas) with an annual cost of \$127.9 million.

When mission requirements dictate that DoD aircraft refuel at commercial airports that do not have into-plane contracts, DoD pilots are allowed to purchase fuel from noninto-plane suppliers at regular retail prices. Suppliers submitted bills directly to local finance offices for payment. During FY 1990, DoD activities purchased \$83.6 million of noninto-plane fuel.

Objectives

The audit objectives were to determine if the Military Departments were collecting and submitting appropriate fuel consumption data to DFSC to support the establishment of into-plane contracts at commercial airports, if existing into-plane contracts were being used by DoD pilots when fuel was purchased at commercial airports, if DoD aircraft could

make greater use of military installations to refuel rather than using commercial airports, and if non-DoD agencies that obtained fuel under DoD into-plane contracts should have reimbursed DoD at the contract cost rather than at the lower stock fund price. Further details concerning the objectives on collection and submission of fuel consumption data and refueling at military installations are discussed under Other Matters of Interest.

Scope

The Military Departments and non-DoD agencies purchased 137.1 million gallons of into-plane fuel from contractors at commercial airports at a total cost of \$127.9 million (Appendix A). We visited the largest user of into-plane fuel from each Military Department. We examined DD Form 1898's, "Fuel Purchase Receipt," to identify the commercial airports used by DoD aircraft and their proximity to military installations.

During FY 1990, the Military Departments purchased 62.4 million gallons of noninto-plane fuel from suppliers at commercial airports at a total cost of \$83.6 million (Appendix B). We visited each Military Department's fuel management office to determine if the Military Departments were collecting and submitting appropriate noninto-plane fuel consumption data to DFSC. We reviewed FY 1990 Military Interdepartmental Purchase Requests (MIPRs) that the Military Departments' fuel management offices submitted to DFSC to request establishment of into-plane contracts.

We selected the three largest users of noninto-plane fuel from each Military Department to determine if the users were collecting and submitting fuel consumption data and if DoD pilots were effectively using existing into-plane contracts. We reviewed 463 noninto-plane fuel purchases totaling \$1.4 million, made by the largest users.

This economy and efficiency audit was made from March 1991 through February 1992 in accordance with auditing standards issued by the Comptroller General of the United States as implemented by the Inspector General, DoD, and accordingly included such tests of internal controls as were considered necessary. A list of activities visited or contacted during the audit is in Appendix F.

Internal Controls

The audit identified a material internal control weakness as defined by Public Law 97-255, Office of Management and Budget Circular A-123, and DoD Directive 5010.38. Controls were not effective to prevent the purchase of higher priced noninto-plane fuel at commercial airports where lower cost

into-plane contracts were established. Recommendations in this report, if implemented, will correct the identified weakness. We have determined that the estimated monetary benefits that can be realized by implementing the recommendations are \$12.3 million during the 6-year Future Years Defense Program. A copy of the final report will be provided to the senior official responsible for internal controls within the Air Force.

Prior Audits and Other Reviews

The IG, DoD, issued Quick-Reaction Report No. 92-026, "Non-DoD Agencies Use of Into-Plane Refueling Contracts at Commercial Airports," December 19, 1991. The report identified \$4.7 million of unnecessary costs for FY 1990 (\$28.4 million during the 6-year Future Years Defense Program), which resulted from DFSC not recovering the full cost of non-DoD agencies' purchases of into-plane fuel. We recommended that DFSC promptly notify non-DoD agencies that actual costs incurred will be billed for fuel purchases under DoD into-plane contracts and that they establish memorandums of agreement with the non-DoD agencies to formulate billing rates for recovering these actual costs.

DLA agreed that DFSC did not recover full into-plane costs of \$4.7 million in FY 1990. DLA also agreed to charge non-DoD agencies higher prices for into-plane fuel starting in FY 1993. However, DLA nonconcurred with and we withdrew our recommendation to establish memorandums of agreement, because legal authority used by DLA to sell petroleum products to other Government agencies does not require it. DLA also nonconcurred with our potential monetary benefits of \$28.4 million, stating that a straight-line projection over the 6-year Future Years Defense Program did not produce an accurate estimate because of the volatility of the fuel market. The Assistant Inspector General for Analysis and Followup will track and report the actual savings amount through the followup process.

Other Matters of Interest

Collection and submission of fuel consumption data. Our audit objective to determine if the Military Departments are collecting and submitting appropriate fuel consumption data to DFSC to support the establishment of into-plane contracts at commercial airports did not disclose a reportable adverse condition requiring management's attention. DoD Manual 4140.25-M, "Management of Bulk Petroleum Products, Storage, and Distribution Facilities," requires the Military Departments to submit fuel requirements of at least 15,000 gallons of a single grade of fuel at a commercial airport to DFSC, for the establishment of into-plane contracts.

Each Military Department established a fuel management office to monitor fuel usage and submit requirements on MIPRS to DFSC. Operating personnel at the fuel management offices also verified future fuel requirements at commercial airports to validate the continued need for into-plane contracts. We reviewed documentation between the fuel management offices and the major commands, and compared new requirements to DFSC's contract fuel listing. We found that requirements were effectively submitted to DFSC to support the potential establishment of into-plane contracts.

Refueling at military installations. Our audit objective to determine if DoD aircraft can make greater use of military installations to refuel rather than use commercial airports was evaluated at selected Military Department installations. We determined that the Army could not make greater use of refueling at military installations because flight training was performed in helicopters that had limited range due to fuel capacity. The Navy flew training missions to commercial airports, and local commands indicated that some missions would be evaluated for refueling at military installations. Over 90 percent of the Air Force's into-plane fuel purchases resulted from its support of embassy missions to countries that did not have DoD military installations. As a result of Quick-Reaction Report No. 92-026, DFSC stated that effective FY 1993, it is increasing the standard price of into-plane contract fuel to reflect its actual cost. This standard price increase for into-plane contract fuel will result in a monetary incentive for pilots to use DoD military installations for refueling, if practical.

PART II - FINDING AND RECOMMENDATIONS

NONUSE OF INTO-PLANE REFUELING CONTRACTS

Air Force pilots frequently did not purchase fuel through available DoD into-plane contracts when refueling aircraft at commercial airports. Instead, pilots purchased higher priced fuel at the same commercial airports from suppliers who did not have into-plane contracts with DoD. This occurred because the Air Force did not have effective management controls to ensure that pilots used available into-plane contracts when refueling at commercial airports; and the Air Force did not provide financial incentives for pilots to use the lower cost into-plane contracts. As a result, the Air Force unnecessarily spent about \$4.1 million for fuel at commercial airports in FY 1990. Over the 6-year Future Years Defense Program, the estimated cost avoidance is \$12.3 million.

DISCUSSION OF DETAILS

Background

Air Force Regulation 144-15, "Refueling at Other Than U.S. Air Force Bases," March 29, 1985, requires Air Force aircraft to refuel at military installations. However, when mission requirements allow for refueling at other than military installations, fuel must be obtained from into-plane contracts; foreign government air forces; or commercial suppliers, in that order.

DFSC administers the into-plane refueling program. DFSC pays into-plane suppliers at the actual negotiated price per gallon of fuel. The negotiated price is usually much lower than the noninto-plane fuel prices offered by local suppliers. For example, the composite negotiated price to DoD for fuel purchased using into-plane contracts during FY 1990 was \$.96 per gallon. Fuel purchased at regular retail prices from other suppliers at commercial airports averaged about \$1.36 per gallon in FY 1990.

Noninto-Plane Purchases at Into-Plane Contract Locations

Air Force activities purchased higher cost noninto-plane fuel at commercial airports that had into-plane contracts. In FY 1990, the Air Force purchased 10.3 million gallons of noninto-plane fuel at a cost of \$14 million. These noninto-plane fuel purchases could have been made at into-plane suppliers at a total cost of \$9.9 million or a savings of \$4.1 million (Appendix C) in FY 1990.

In our draft report, we included fuel that was purchased to support Operation Desert Shield in our calculation of potential monetary benefits. We have adjusted our potential monetary benefits downward. We recognize that it is unlikely that the large volume of fuel that was consumed during Operation Desert Shield will continue in future years. Accordingly, we have reduced our potential monetary benefits to \$12.3 million (\$2.05 million times 6 or 50 percent of noninto-plane fuel purchases) projected over the 6-year Future Years Defense Program to account for other than Operation Desert Shield fuel consumption.

We compared the airports where noninto-plane fuel was purchased by the Air Force to DFSC's contract listing of into-plane contract locations. Of the 605 commercial airports worldwide where noninto-plane fuel was purchased, we determined that 106 (18 percent) commercial airports were locations where into-plane contracts had been established. These purchases are summarized in Appendix D. Our analysis showed that from 70 gallons to 4.2 million gallons of noninto-plane fuel were purchased at into-plane locations in FY 1990.

We interviewed Air Force officials to determine the rationale for pilots' purchase of noninto-plane fuel at into-plane contract locations. Air Force officials did not provide any rationale or documentation to support the basis for pilots refueling at into-plane contract locations using noninto-plane suppliers.

The Air Force accumulated data on noninto-plane fuel purchased in FY 1990; however, there were no procedures in place at the fuel management office to notify major commands that Air Force pilots were not complying with Air Force guidance.

Lack of Financial Incentive

Air Force activities that refueled their aircraft at noninto-plane suppliers were subsidized by the Air Force fuel stock fund. The Air Force fuel stock fund is managed by the Air Force Logistics Center, Kelly Air Force Base, Texas. When higher cost noninto-plane fuel was purchased from suppliers at commercial airports, the local finance office paid the supplier at retail price and cited the Air Force fuel stock fund account. However, Air Force activities were charged the DFSC standard price even though the regular retail price was charged to the Air Force stock fund. This means that the Air Force activities' operation and maintenance funds were not fully charged the actual cost of the fuel. Therefore, it made no difference to the local squadron where the fuel was purchased since the price was the same to the squadron whether or not an into-plane supplier was used. We estimated that in FY 1990 the Air

Force stock fund undercharged its customers who purchased noninto-plane fuel by about \$45 million. The Air Force purchased 55.5 million gallons of noninto-plane fuel, costing the Air Force stock fund \$75.5 million, for which Air Force users would have been charged \$30.5 million as shown in Appendix B. Although we did not review all aspects of the Air Force stock fund, these undercharges could contribute to a negative cash position for the stock fund.

In contrast to the Air Force's fuel stock fund, the Army and Navy did not use a stock fund for payment of noninto-plane fuel. Funding for noninto-plane fuel was provided at the installation level and both Military Departments' local paying offices paid the full price for noninto-plane fuel with operation and maintenance funds. This provided an incentive to Army and Navy units to purchase fuel using into-plane contracts. Our review disclosed that neither the Army nor the Navy purchased noninto-plane fuel at commercial airports that also had into-plane contracts. Using lower cost into-plane fuel at commercial airports makes more funds available for fuel to support the Army and Navy's flying hour programs.

RECOMMENDATIONS FOR CORRECTIVE ACTION

1. We recommend that the Deputy Assistant Secretary of the Air Force (Budget) require the Air Force stock fund to charge Air Force activities the full retail price of noninto-plane fuel purchased at commercial airports.
2. We recommend that the Commander, San Antonio Air Logistics Center, monitor the purchases of noninto-plane fuel made by Air Force activities at commercial airports that have into-plane contracts and notify the major command of the Air Force activities that purchased inordinate quantities of higher cost noninto-plane fuel.

MANAGEMENT COMMENTS

Recommendation 1. The Principal Deputy Assistant Secretary of the Air Force (Financial Management) concurred with Recommendation 1. However, the Principal Deputy commented that the scope of the problem addressed in the report was relatively insignificant. The Principal Deputy stated that 60 percent of the fuel identified in the report was purchased during Operation Desert Shield in Saudi Arabia and Thailand. This made projections of future monetary benefits based on wartime operations unreliable. He requested that the monetary benefits be deleted from the report.

The Principal Deputy stated that on October 1, 1992, DFSC assumed financial responsibility for virtually all aviation fuel inventory. It will be the responsibility of DFSC to

develop a billing system to bill Air Force activities directly. When this occurs, the Air Force Aviation Fuel Management Section of the Air Force Supply Operations Fuel Division will no longer be in business. Consequently, noninto-plane fuel purchases will be treated as local purchases and will not be price stabilized by processing noninto-plane fuel transactions through the Air Force stock fund. No additional action is required by the Air Force to comply with this recommendation.

Recommendation 2. The Principal Deputy Assistant Secretary of the Air Force (Financial Management) concurred with Recommendation 2. The Principal Deputy stated that it is the primary responsibility of the Director of Operations and Wing Commanders to monitor noninto-plane fuel purchases on individual aircraft. The Principal Deputy stated that the San Antonio Air Logistics Command, Synthetic Fuels will begin monitoring, as work load allows, noninto-plane fuel purchases on a monthly basis and notify the major commands of any inordinate quantities of noninto-plane fuel purchases at locations where into-plane contracts exist. Additionally, management stated that DoD Directive 7420.13 requires all fuel to be sold at standard price. Consequently, even if the audit findings were valid, the stock fund could not have billed the difference.

AUDIT RESPONSE

Recommendation 1. The Principal Deputy's comments were partially responsive to the intent of Recommendation 1. We recognize that some of the fuel was used to support Operation Desert Shield and we have adjusted our potential monetary benefits downward. Our analysis showed that approximately 50 percent of the noninto-plane fuel purchases by all military commands in FY 1990 occurred during Desert Shield. We do not consider the remaining purchases insignificant. Air Force pilots unnecessarily purchased fuel at higher prices at locations where into-plane contracts were established. About \$12.3 million in potential monetary benefits still can be achieved. We believe that DoD pilots should fully utilize established into-plane contracts. Therefore, we request that the Air Force provide additional comments on the revised monetary benefits associated with Recommendation 1.

When the Fuel Management Section ceases operation and noninto-plane fuel purchases are treated as local purchases and not price stabilized, Air Force pilots will have a financial incentive to purchase lower cost into-plane fuel. Management did not provide a cessation date for the Air Force Fuel Management Section; therefore, we request a cessation date for the Fuel Management Section.

Recommendation 2. The Principal Deputy's comments were responsive to the intent of Recommendation 2. Monitoring of fuel purchases will provide a control to help the Air Force realize savings by making greater use of into-plane contracts. The Principal Deputy did not provide a date when monitoring is to start; therefore, we request a start date.

DoD Directive 7420.13 allows local procurements, including fuel, to be priced at procurement cost. After the Air Force Fuel Management Section ceases operation, Air Force activities will have to pay the full procurement cost for noninto-plane fuel.

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PART III - ADDITIONAL INFORMATION

- APPENDIX A - Schedule of Into-plane Fuel Purchased by DoD and Non-DoD Components, FY 1990
- APPENDIX B - Comparison of Noninto-plane Fuel Purchased by Military Departments and DFSC Standard Cost, FY 1990
- APPENDIX C - Schedule of Noninto-plane Fuel Purchased by Air Force Components at Into-plane Locations, FY 1990
- APPENDIX D - Schedule of Airports Where Noninto-plane Fuel was Purchased at Into-plane Locations, FY 1990
- APPENDIX E - Summary of Potential Benefits Resulting From Audit
- APPENDIX F - Activities Visited or Contacted
- APPENDIX G - Report Distribution

APPENDIX A. SCHEDULE OF INTO-PLANE FUEL PURCHASED BY DOD AND NON-DOD COMPONENTS, FY 1990

<u>Component</u>	<u>Gallons Purchased</u>	<u>Percent</u>	<u>Disbursements 1/</u>	<u>Standard Price 2/</u>
Army	17,637,895	12.8	\$ 18,707,676	\$ 9,993,619
Navy	20,994,379	15.3	19,734,027	11,741,617
Air Force	83,981,595	61.3	75,551,268	47,058,496
Marines	345,103	0.3	355,005	295,152
Non-DoD	<u>14,093,895</u>	<u>10.3</u>	<u>13,529,537</u>	<u>8,022,737</u>
Total	<u>137,052,867</u>		<u>\$127,877,513</u>	<u>\$77,111,621</u>

1/ Disbursements represent amounts DFSC paid to into-plane suppliers at commercial airports.

2/ The standard price represents amounts reimbursed to DFSC by into-plane contract users.

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**APPENDIX B. COMPARISON OF NONINTO-PLANE FUEL PURCHASED BY
MILITARY DEPARTMENTS AND DFSC STANDARD COST, FY 1990**

<u>Military Department</u>	<u>Gallons</u>	<u>Actual Cost 1/</u>	<u>Standard Cost 2/</u>
Army	2,007,253	\$ 3,546,088 <u>3/</u>	\$ 1,103,989
Navy	4,825,291	4,583,498 <u>3/</u>	2,653,910
Air Force	<u>55,519,864</u>	<u>75,507,015</u>	<u>30,535,925 4/</u>
Total	<u>62,352,408</u>	<u>\$83,636,601</u>	<u>\$34,293,824</u>

1/ Actual cost represents regular retail price that suppliers charged at the commercial airport for noninto-plane fuel.

2/ Standard cost represents the amount that DFSC charged its DoD customers for into-plane fuel and the Air Force stock fund charged major commands for noninto-plane fuel purchases.

3/ Army and Navy activities were required to pay the actual cost of noninto-plane fuel from operation and maintenance funds.

4/ Air Force activities were only required to reimburse the Air Force stock fund for the standard cost of noninto-plane fuel from operation and maintenance funds. This caused the Air Force stock fund to undercharge customers about \$45 million (\$75.5 million-\$30.5 million) in FY 1990 for noninto-plane fuel.

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APPENDIX C. SCHEDULE OF NONINTO-PLANE FUEL PURCHASED BY AIR FORCE COMPONENTS AT INTO-PLANE LOCATIONS, FY 1990

Component	Gallons Purchased	Cost of Noninto-plane		Cost of Into-plane		Savings to DoD 3/
		Fuel 1/		Fuel 2/		
Air Forces Europe	3,477	\$ 4,729	\$ 3,338	\$ 1,391		
Air Force Reserve	806,552	1,096,911	774,290	322,621		
Air National Guard	498,949	678,571	478,991	199,580		
Air Training Command	133,994	182,232	128,634	53,598		
Logistics Command	884,639	1,203,109	849,253	353,856		
Military Airlift Command	6,974,512	9,485,336	6,695,532	2,789,804		
Pacific Air Forces	1,522	2,070	1,461	609		
Special Operation Mission	6,854	9,321	6,580	2,741		
Strategic Air Command	834,429	1,134,823	801,052	333,771		
Systems Command	13,364	18,175	12,829	5,346		
Tactical Air Command	163,928	222,942	157,371	65,571		
Total	10,322,220	\$14,038,219	\$9,909,331	\$4,128,888 4/		

1/ Cost of noninto-plane fuel represents prices that Air Force finance centers paid to commercial suppliers. The average cost per gallon of noninto-plane fuel (\$1.36) was used to estimate these prices.

2/ Cost of into-plane fuel represents the amount that would have been paid by DFSC if fuel was purchased from an into-plane contract. The average cost per gallon of into-plane fuel (\$.96) was used to estimate this amount.

3/ Savings to DoD represents amounts that could have been saved if fuel was purchased from into-plane suppliers instead of noninto-plane commercial suppliers.

4/ Revised downward to \$2.05 million annually to reflect fuel purchased during Operation Desert Shield. It is unlikely these purchases will occur in the future.

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APPENDIX D. SCHEDULE OF AIRPORTS WHERE NONINTO-PLANE FUEL WAS PURCHASED AT INTO-PLANE LOCATIONS, FY 1990

Gallons Purchased by Major Commands

<u>Airports</u> <u>1/</u>	<u>AFR</u> <u>2/</u>	<u>ANG</u> <u>3/</u>	<u>ATC</u> <u>4/</u>	<u>LOG</u> <u>5/</u>	<u>MAC</u> <u>6/</u>	<u>SAC</u> <u>7/</u>	<u>TAC</u> <u>8/</u>	<u>Other</u> <u>2/</u>	<u>Total</u>
Dhahran IAP <u>10/</u> , Saudi Arabia	512,331	10,505		455,781	3,239,763				4,218,380
Riyadh IAP, Saudi Arabia	29,958	5,267		143,137	1,537,950	13,964			1,730,276
Bangkok, Thailand				12,020	1,310,944				1,322,964
Greenville, SC							820		567,627
Phoenix-Sky Harbor IAP, AZ		45,006	95,914		5,829	82,284	840		229,873
Colorado Springs, CO					504	145,088			145,592
McCarran IAP, NV		134,321			6,702				141,023
San Antonio IAP, TX		527			115,015		338		115,880
St. John's, Canada			29,348		85,144				114,492
Alexander Hamilton, VI					88,532				88,532
Other Airports <u>11/</u>	264,263	303,323	8,732	273,701	584,129	26,286	161,930	25,217	1,647,581
Total	806,552	498,949	133,994	884,639	6,974,512	834,429	163,928	25,217	10,322,220

1/ Of 106 into-plane locations where noninto-plane fuel was purchased, 10 locations accounted for 8.7 million gallons or 84 percent of the fuel.

2/ Air Force Reserves

3/ Air National Guard

4/ Air Training Command

5/ Logistics Command (merged with Systems Command to form Air Force Materiel Command)

6/ Military Airlift Command (currently Air Mobility Command)

7/ Strategic Air Command (merged with Tactical Air Command to form Air Combat Command)

8/ Tactical Air Command (merged with Strategic Air Command to form Air Combat Command)

9/ Includes Special Operation Missions, Air Forces Europe, Pacific Air Forces, and Systems Command (merged with Logistics Command to form Air Force Materiel Command)

10/ International airports

11/ Other airports accounted for 1.6 million gallons or 16 percent of the fuel at 96 into-plane locations.

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**APPENDIX E. SUMMARY OF POTENTIAL BENEFITS RESULTING FROM
AUDIT**

<u>Recommendation Reference</u>	<u>Description of Benefit</u>	<u>Amount and Type of Benefit</u>
1. and 2.	<u>Economy and Efficiency</u> The Air Force's purchase of into-plane contract fuel instead of noninto-plane fuel will reduce fuel costs.	<u>Funds Put to Better Use.</u> The Air Force can decrease its fuel costs by an estimated \$12.3 million* for appropriation 97x4930.FC01 over the 6-year Future Years Defense Program (FY 1993-1998)

*The original estimate in the draft report was \$24.6 million over the 6-year Future Years Defense Program. Estimate revised downward to account for fuel purchased during Operation Desert Shield.

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APPENDIX F. ACTIVITIES VISITED OR CONTACTED

Office of the Secretary of Defense

Office of the Assistant Secretary of Defense (Production and Logistics), Washington, DC
Comptroller of the Department of Defense, Washington, DC

Department of the Army

Assistant Secretary of the Army (Financial Management), Washington, DC
Army Staff, Deputy Chief of Staff for Logistics, Washington, DC
National Guard Bureau, Comptroller, Washington, DC
Army Reserve, Comptroller, Washington, DC
U.S. Army Special Operations Command, Fort Bragg, Fayetteville, NC
Forces Command, Fort McPherson, Atlanta, GA
XVIII Airborne Corps and Fort Bragg, Fayetteville, NC
1st Army, Fort Meade, MD
5th Infantry (Mech) Division and Fort Polk, Leesville, LA
24th Infantry (Mech) Division and Fort Stewart, Hinesville, GA
Aviation Training Brigade and Fort Rucker, Dothan, AL
General Materiel and Petroleum Activity, New Cumberland, PA
Hunter Army Air Field, Savannah, GA
U.S. Property and Fiscal Officer, San Luis Obispo, CA
U.S. Property and Fiscal Officer, Atlanta, GA
U.S. Property and Fiscal Officer, Raleigh, NC
U.S. Property and Fiscal Officer, Annville, PA
National Guard, Army Aviation Support Facility, Salisbury, NC
National Guard, Army Aviation Flight Activity, Fresno, CA
National Guard, Aviation Classification Repair Activity Depot, Fresno, CA

Department of the Navy

Office of the Assistant Secretary of the Navy (Financial Management), Washington, DC
Chief, Naval Operations, Washington, DC
Commander, Naval Air, Washington, DC
Commander, Naval Air Reserve Forces, New Orleans, LA
Commander, Atlantic Fleet, Norfolk, VA
Commander, Pacific Fleet, San Diego, CA
Commander, Naval Air Atlantic Fleet, San Diego, CA
Chief, Naval Education and Training, Corpus Christi, TX
Finance and Accounting Disbursement Center, Pacific Fleet, San Diego, CA
Naval Regional Finance Center, Washington, DC

APPENDIX F. ACTIVITIES VISITED OR CONTACTED (cont'd.)

Department of the Navy (cont'd.)

Naval Computer and Telecommunications Station,
Washington, DC
Navy Petroleum Office, Cameron Station, Alexandria, VA
Navy Air Logistics Office, New Orleans, LA
Commander, Patrol Wing 5, Jacksonville, FL
Commander, Patrol Wing 11, Brunswick, ME
Commander, Fleet Logistics Support Wing, Naval Air Station,
Dallas, TX
Training Air Wing 4, Corpus Christi, TX
Training Air Wing 6, Pensacola, FL
Naval Air Station, Corpus Christi, TX
Naval Air Station, Pensacola, FL
Patrol Squadron 23, Naval Air Station, Brunswick, ME
Patrol Squadron 5, Naval Air Station, Jacksonville, FL
Fleet Logistics Support Squadron 55, Alameda, CA
Fleet Air Reconnaissance Squadron 4, Naval Air Station,
Patuxent River, MD
Air Test and Evaluation Squadron 1, Naval Air Station,
Patuxent River, MD
Ocean Development Squadron 8, Naval Air Station, Patuxent
River, MD
Training Squadron 86, Naval Air Station, Pensacola, FL
Training Squadron 10, Naval Air Station, Pensacola, FL
Training Squadron 4, Naval Air Station, Pensacola, FL
Training Squadron 27, Naval Air Station, Corpus Christi, TX
Training Squadron 28, Naval Air Station, Corpus Christi, TX
Training Squadron 31, Naval Air Station, Corpus Christi, TX

Department of the Air Force

Office of the Comptroller, Washington, DC
Headquarters, Military Airlift Command, Scott Air Force
Base, Belleville, IL
Headquarters, Air Training Command, Randolph Air Force Base,
San Antonio, TX
Headquarters, San Antonio Air Logistics Center, Kelly Air
Force Base, San Antonio, TX
Detachment 29, San Antonio Air Logistics Center,
Cameron Station, Alexandria, VA
438th Military Airlift Wing, McGuire Air Force Base,
Bordentown, NJ
60th Military Airlift Wing, Travis Air Force Base,
Fairfield, CA
89th Military Airlift Wing, Andrews Air Force Base,
Camp Springs, MD
1402nd Military Airlift Squadron, Andrews Air Force Base,
Camp Springs, MD
1st Helicopter Squadron, Andrews Air Force Base,
Camp Springs, MD

APPENDIX F: ACTIVITIES VISITED OR CONTACTED (cont'd.)

Department of the Air Force (cont'd.)

District of Columbia Air National Guard, 113th Resource
Management Squadron, Andrews Air Force Base, Camp Springs,
MD

Marine Corps

Commandant of the Marine Corps, Washington, DC
Marine Aircraft Group - 31, Marine Corps Air Station,
Beaufort, SC
Marine Fighter Attack Squadron - 122, Marine Corps Air
Station, Beaufort, SC

DoD Agencies

Headquarters, Defense Logistics Agency, Alexandria, VA
Headquarters, Defense Fuel Supply Center, Alexandria, VA

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APPENDIX G. REPORT DISTRIBUTION

Office of the Secretary of Defense

Assistant Secretary of Defense (Production and Logistics)
Assistant Secretary of Defense (Public Affairs)
Assistant Secretary of Defense (Reserve Affairs)
Comptroller of the Department of Defense

Department of the Army

Secretary of the Army
Inspector General, Department of the Army
Chief, National Guard Bureau
Army Audit Agency
Commander, General Materiel and Petroleum Activity

Department of the Navy

Secretary of the Navy
Assistant Secretary of the Navy (Financial Management)
Commandant of the Marine Corps
Naval Audit Service
Commander, Navy Petroleum Office

Department of the Air Force

Secretary of the Air Force
Assistant Secretary of the Air Force (Financial Management
and Comptroller)
Air Force Audit Agency
Deputy Assistant Secretary of the Air Force (Budget)
Commander, San Antonio Air Logistics Center
Commander, Detachment 29, San Antonio Air Logistics Center

Defense Agencies

Director, Defense Contract Audit Agency
Director, Defense Intelligence Agency
Director, Defense Logistics Agency
Director, Defense Logistics Studies Information Exchange
Inspector General, National Security Agency
Commander, Defense Fuel Supply Center

Other Defense Activities

Commander in Chief, U.S. Transportation Command

APPENDIX G. REPORT DISTRIBUTION (cont'd)

Non-DoD Activities

Office of Management and Budget
U.S. General Accounting Office
National Security and International Affairs
Division, Technical Information Center
National Security and International Affairs
Division, Director for Logistics Issues

**Chairman and Ranking Minority Member of the following
Congressional Committees and Subcommittees:**

Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Operations
House Subcommittee on Legislation and National Security,
Committee on Government Operations

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PART IV - MANAGEMENT COMMENTS

Principal Deputy Assistant Secretary of the Air Force
(Financial Management)

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE



DEPARTMENT OF THE AIR FORCE
WASHINGTON DC 20330-1000

OFFICE OF THE ASSISTANT SECRETARY

6 NOV 1992

MEMORANDUM FOR ASSISTANT INSPECTOR GENERAL FOR AUDITING OFFICE OF
THE INSPECTOR GENERAL DEPARTMENT OF DEFENSE

SUBJECT: Draft Report on the Audit of Into-Plane Refueling
(Project No. 1LC-0030) - INFORMATION MEMORANDUM

This in reply to your memorandum requesting the Assistant
Secretary of the Air Force (Financial Management and Comptroller)
to provide Air Force comments on subject report.

Attached are the Air Force management comments.

JOHN W. BEACH
Principal Deputy Assistant Secretary
of the Air Force, Financial Management

1 Attachment
Management Comments to Audit
Recommendations

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE (cont'd)

DRAFT REPORT ON THE AUDIT OF
INTO-PLANE REFUELING
(Project No. 1LC-0030)

Recommendation 1.

We recommend that the Deputy Assistant Secretary of the Air Force (Budget) require the Air Force stock fund to charge Air Force activities the full retail price of noninto-plane fuel purchased at commercial airports.

MANAGEMENT COMMENTS. Concur.

The scope of the problem surfaced in the referenced audit is relatively insignificant. Approximately 60 percent of the cited occurrences were made by Military Airlift Command aircraft in Saudi Arabia and Thailand during Operation Desert Shield. After an additional 10 percent is deducted for all other Desert Shield refueling, the cited problem is less than 1/10th of 1 percent in volume. Projecting future monetary benefit savings based on wartime operations is not reliable and we recommend the monetary benefit savings be dropped as an audit issue.

It should be noted that the Defense Fuel Supply Center (DFSC) has assumed financial responsibility for virtually all aviation fuel inventory on 1 October 1992. Incumbent upon DFSC is the responsibility to develop a system where DFSC will bill the Air Force activities directly. When they have this capability, the Air Force Aviation Fuel Management Section of the Air Force Supply Operations Fuel Division will no longer be in business. Consequently, such purchases will be treated as a local purchase and will not be "price stabilized." Therefore, no additional action is required by Air Force to comply with this recommendation.

MANAGEMENT COMMENTS: DEPARTMENT OF THE AIR FORCE (cont'd)

DRAFT REPORT ON THE AUDIT OF
INTO-PLANE REFUELING
(Project No. 1LC-0030)

Recommendation 2.

We recommend that the Commander, San Antonio Air Logistics Center monitor the purchases of noninto-plane fuel made by Air Force activities at commercial airports that have into-plane contracts and notify the major command of the Air Force activities that purchase inordinate quantities of higher cost noninto-plane fuel.

MANAGEMENT COMMENTS. Concur.

Monitoring the purchases of noninto-plane fuel made by Air Force activities at commercial airports that have into-plane contracts and notifying the major command of inordinate quantities can be accomplished on a limited basis. However, it is the responsibility of the Director of Operations and the Wing Commander of that aircraft to monitor the usage of noninto-plane purchases. SA-ALC/SF will begin to monitor, as workload allows, noninto-plane purchases on a monthly basis and will notify the major commands of any inordinate quantities. In addition, DoD Directive 7420.13 requires all fuel to be sold at standard price. Consequently, even if the audit findings were valid, the stock fund could not have billed the difference.

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INTERNET DOCUMENT INFORMATION FORM

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Symbol, & Ph #):** OAIG-AUD (ATTN: AFTS Audit Suggestions)
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